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**BUDGET, 1958-59****FINANCE MINISTER'S SPEECH**

28th February, 1958

According to custom, the Budget statement for the coming year, has to be presented today. By an unexpected and unhappy chain of circumstances, the Finance Minister, who would normally have made this statement this afternoon, is no longer with us. This heavy duty has fallen upon me almost at the last moment.

2. The times are not propitious in many ways and within the last few days all of us here and the entire nation has suffered a grievous loss by the passing away of a leader of our people who had been a tower of strength to all of us both in the days when we were in the wilderness and when a measure of fulfilment came with its new problems and burdens. So I stand before this House today with a sense of desolation and a feeling of unfitness for the task that the fate and circumstance have thrust upon me. I see the indulgence of the House.

3. Last year, my distinguished predecessor in this office presented a Budget statement which, in some respects, was unusual and which involved substantial additions to taxation. Some novel taxes were introduced and an attempt was made to bring about gradually a reorientation of the tax structure of the country. I believed then, and I believe now, that this was the right direction for us to travel and that we should continue to pursue this path. With experience we may no doubt make changes here and there and advance further in that direction, but I think that the major steps that we had taken last year have to continue. The times we live in and the problems that our country has to face do not permit a static or complacent approach or any avoidance of the burdens which inevitably accompany and attempt to advance with some speed.

Our objective of striving peacefully and cooperatively towards the realisation of a socialist pattern of society also prevents us from thinking or acting along the old grooves, or seeking some present respite by slowing down or halting development. While we should always be prepared to reconsider the methods we adopt, should this become necessary, we have to strive with all our strength for our planned development by conserving all our resources, increasing production and trying to ensure progressively a more equitable distribution, and thus to raise the standards of the great mass of our people.

4. In the circumstances that we face today, I can only present before this House what might be called a pedestrian Budget statement, which is in the main a continuance of things as they are, with relatively minor changes, or such changes as naturally flow from what we did last year. This statement relates to the estimated receipts and expenditure of the Government of India for 1958-59.

### Review of Economic Conditions

5. Following the usual practice I propose to review briefly the economic conditions in the country during the current year against the background of which the budget has to be considered. An economic survey, covering the major developments in the economy during 1957-58 and explaining the impact of the various measures adopted, is being circulated to Honourable Members along with the Budget papers. I propose, therefore, to review only briefly the main trends in the economy.

6. There has been some improvement in the economic situation in recent months. Prices have tended to come down and the decline in foreign exchange reserves has slowed down markedly. The money market is easier and expansion of money supply and bank credit have been brought under control. The measures adopted to check inflationary pressures and correct the strain on the balance of payments are proving effective.

### Prices

7. Wholesale prices were comparatively stable in the early months of the year, but there was a sharp rise between May and August when the index went up from 107 to 112. After August, prices have tended to fall. In recent weeks, the index has been around 105, which is slightly lower than the level about a year ago. The index for cereals which had gone up from 97 in December, 1956, to 106 in March, 1957, was again at 98 in December, 1957. The improvement has been due to the various measures taken to hold the price level, including controls at particular points and restraints on bank credit; it is also a reflection of the improved supplies position. This latter is, however, due to large imports which the country can hardly afford.

### Production

8. Agricultural production in 1956-57 recorded a rise of some 6 per cent over the previous year's level, the improvement being shared by both foodgrains and other crops. The output of foodgrains in 1956-57 was 3.4 million tons more than in 1955-56. This year, however, there have been droughts over considerable areas in the country, and the supply position is difficult.

9. Industrial production has continued to expand, but the rate of expansion this year has been much more modest than in the last few years. There have, nevertheless, been significant increases in certain lines, both in the capital goods as well as in the consumer goods categories, and further additions to production capacity are being made.

### Monetary Situation

10. In the stock market, there was a declining trend in both prices and turnover. The prolonged period of boom which started in 1953 ended in 1956. The decline in equity prices, as measured by the Reserve Bank's index of variable dividend industrial securities was 16 per cent in 1957—and 25 per cent as compared to August 1956.

11. The gilt-edged market was weak in the early part of the year. There has, however, been a revival, in recent months, in the demand for investment, especially in short-dated securities. Since September last, the stringency in the money market has been less acute, and investments of scheduled banks in Government securities increased by Rs. 67 crores between September and December. State loans have also improved slightly and there has been sustained buying in some of them. The net decline in the prices of Government securities in 1957 has been 0.7 per cent.

12. A noticeable feature in the monetary situation in 1957 has been the smaller expansion in money supply and in bank credit in 1957 as compared to the previous year. Money supply with the public increased by Rs. 97 crores in 1957 as compared to Rs. 132 crores in 1956 and Rs. 215 crores in 1955. The expansion of bank credit was Rs. 80 crores *i.e.*, less than half the expansion in the previous year. The time deposits with the banks increased by Rs. 201 crores during the year. This has eased the strain on the banks' resources.

### Balance of Payments

13. Honourable Members are aware of the continuous strain on our balance of payments since the beginning of the Second Plan. The Reserve Bank's foreign assets which, at the end of 1956, stood at Rs. 530 crores dropped to Rs. 453 crores at the end of June 1957 despite the drawal of Rs. 95 crores from the International Monetary Fund during that period. Between July and December 1957 the foreign assets declined by a further

Rs. 155 crores to Rs. 298 crores. As a result of the remedial steps taken by Government, the rate of net withdrawal has perceptibly fallen in recent months. The monthly average rate of withdrawal came down from Rs. 36 crores in the second quarter of 1957 to Rs. 18 crores in the last quarter of that year. In recent weeks, it has been below Rs. 3 crores a week.

14. The House will recall that the last year of the First Plan closed with a balance of payments surplus on current account of Rs. 17 crores, including credits totalling to Rs. 42 crores on account of foreign assistance. During 1956-57 the position was reversed and a current account deficit of about Rs. 292 crores emerged, after taking credit of Rs. 40 crores of foreign assistance. The payments deficit during each of the quarters of that year was Rs. 44·5 crores, Rs. 81·4 crores, Rs. 84·8 crores and Rs. 81·8 crores respectively. For the quarter ending June 1957, the deficit was Rs. 149·7 crores and it was also about the same—Rs. 148 crores—for the quarter July-September. These large deficits in the balance of payments have been due to a substantial increase in imports and a slight decline in exports, and the bulk of the increase in imports has been in respect of capital goods and industrial raw materials required for development.

15. The improvement in the balance of payments, to which I referred earlier, thus relates to the period after September. Satisfactory as this latest trend is, it will be necessary to continue and accelerate the effort we are making, both in the matter of keeping down imports and of increasing exports, in order to bring the balance of payments position to a satisfactory state. The problem is no longer one of reducing payments in terms of a particular currency or group of currencies, but of securing an all round improvement.

16. The House is aware of the steps that have been taken to meet the difficult balance of payments position. Drastic cuts have been made in the imports of consumer goods, and strict vigilance is being exercised in respect of the licensing of imports including imports of capital goods. Efforts are being made simultaneously to secure external assistance and deferred payment terms for projects in both the public and private sectors having high priority and likely to save foreign exchange.

### Foreign Assistance

17. In the current year the International Bank for Reconstruction and Development assisted in financing the country's development projects by sanctioning loans of Rs. 43 crores for railway development, Rs. 15 crores for the expansion of the Tata Iron and Steel Works and Rs. 5 crores for the construction of the Trombay Thermal Station in Bombay. Negotiations are under way for obtaining loans from the Bank for the

development of ports, the Koyna Hydro Electric Project and the Damodar Valley Corporation. In the last two or three months there have been various offers of assistance from friendly foreign countries for the economic development of this country. Last month the Government of the United States of America offered a loan of approximately \$ 225 million (about Rs. 107 crores) from out of the currently available resources of the United States Export Import Bank and the President's Development Loan Fund. An official mission from this country is now negotiating details for the utilisation of this offer. The United States Government are also considering as a matter of high priority, further measures to assist us in getting over the present shortage of foodgrains. The measure of assistance promised by the United States is expected to help us significantly in financing our imports of essential capital goods over the next fifteen months.

18. The question of obtaining a postponement of certain payments which will fall due in the next three years or so in respect of the Rourkela Steel Plant has been under discussion with the West German Government. This has been agreed to by that Government and an agreement for deferring payment of 660 million Deutsche Marks (Rs. 75 crores roundly) was signed on the 26th of this month.

19. On the 4th February 1958, an agreement was signed with Japan under which Japan would make available to India a sum of 18 billion yen (roughly Rs. 24 crores) through the Export Import Bank of Japan to enable Government or parties recommended by Government to make purchases from Japan. This line of credit will be used for the purchase of Japanese goods including mostly industrial plant, machinery and equipment. The loans will be repaid within a period of ten years and the rate of interest will be decided on the basis of rate charged by the International Bank for Reconstruction and Development.

20. The Government of the U.S.S.R. also offered us a credit of 500 million roubles (about Rs. 60 crores) to be used in the form of technical assistance and equipment. This will be used for the setting up of a heavy machine building plant, a plant for the manufacture of coal mining machinery, an optical glass factory and a thermal power station and for the development of the Korba Coalfields. This credit, like the one given by them for the Bhilai Steel Plant, carries interest at the rate of 2.5 per cent per annum and is repayable in 12 equal annual instalments.

21. The United Kingdom Government have also offered to assist us by paying in advance, on the 1st April 1958, three annual instalments of £ 4 million each due from them under the arrangements made in 1955 for the transfer of sterling pensions.

22. We have recently signed an agreement with the Government of France for economic and technical cooperation between the two countries. Under it the French Government will facilitate the financing of the manufacture and supply of capital goods for which orders are placed by Indian purchasers with French suppliers in the twelve months following the date of signing of the agreement, up to a total amount of 25 billion francs (about Rs. 28 crores). The terms of each contract would be settled separately with the approval of both the Governments.

23. The total economic assistance made available to this country by friendly foreign countries upto the end of March 1957 amounted to Rs. 468 crores, out of which Rs. 219 crores had been utilised by that date. The balance of about Rs. 244 crores has mostly been committed for the supply of equipment and commodities. During 1957-58, Canada has authorised 21 million dollars as assistance to this country under the Colombo Plan. In addition, Canada has made a special grant of 7 million dollars for the purchase of wheat. She has also agreed to supply an additional quantity of 400,000 tons of wheat on reasonable terms of credit to meet the food shortage. The Ford Foundation has continued its assistance by a further allocation of 6.2 million dollars.

24. Under the various programmes of assistance already in operation or in sight, the total foreign assistance to this country in the coming year is estimated at Rs. 325 crores for which credit has been taken in the budget. This assistance would materially help in the implementation of the Second Five Year Plan and I am sure the House would join me in expressing our appreciation to our friends who have come to our assistance.

25. India, on her part, has continued to provide economic and technical assistance to neighbouring countries particularly under the Colombo Plan. In Nepal, where we have undertaken to provide aid upto Rs. 10 crores, the expenditure in the coming year has been estimated to be Rs. 2.2 crores. We also promised to give a loan of Rs. 20 crores to Burma, of which Rs. 15 crores will be paid this year and the balance next year.

#### Financial Year 1957-58

26. The Budget for the current year, as finally approved by Parliament, placed the revenue at Rs. 708.03 crores and expenditure at Rs. 672.29 crores, leaving a surplus, on revenue account, of Rs. 35.74 crores. On present estimates, revenue is now likely to amount to Rs. 724.63 crores and expenditure to Rs. 719.58 crores resulting in a small surplus of Rs. 5.05 crores. The drop of Rs. 30.69 crores in the surplus is largely the result of the additional transfer of Rs. 34-1/2 crores to the States as a result of the Finance Commission's recommendations which have been accepted by Government.

27. I shall first briefly mention the important variations in the revenue estimates. The revenue from Customs is now expected to be Rs. 183 crores against the budget estimate of Rs. 167·6 crores. Excluding the additional duties levied on sugar, cloth and tobacco, which accrue to the States, Union Excise Duties are now expected to yield Rs. 252·45 crores against the budget estimate of Rs. 259·57 crores. The decrease of Rs. 7·12 crores is mainly due to a fall in the revenue from cloth and motor spirit. This is partly counter-balanced by increased revenue from cement and diesel oils. No change is anticipated in the budgeted figure of Rs. 206·40 crores for Corporation Tax and Income Tax, but the share of the States will increase from Rs. 65·98 crores to Rs. 73·43 crores, as a result of the Finance Commission's Award. The revenue from Wealth Tax this year is now put at Rs. 9 crores, a drop of Rs. 8·5 crores in the original estimate due to the time taken in obtaining necessary statements from assessees. The tax on Railway fares is now expected to yield Rs. 4·84 crores against the original budget of Rs. 7 crores. The revenue from Posts and Telegraphs is likely to drop by Rs. 2·72 crores to Rs. 1·23 crores, due partly to a fall in traffic and partly to the interim relief to low paid employees granted recently. The dividend from Railways is now estimated at Rs. 44·24 crores against the budget figure of Rs. 43·79 crores. Of this sum, Rs. 37·91 crores, representing the interest element, is taken in reduction of interest payments on the expenditure side and the balance credited as contribution to revenue. The variations under other heads do not call for any special mention.

28. The expenditure this year is now estimated at Rs. 719·58 crores—Rs. 266·05 crores on Defence Services and Rs. 453·53 crores under Civil heads.

29. The revised estimate of the net Defence expenditure is placed at Rs. 266·05 crores against the budget estimate of Rs. 252·71 crores. The increase is largely accounted for by an additional provision of Rs. 6·86 crores for the Army and Rs. 6·80 crores for the Air Force. The increase in the Army estimate is due mainly to the purchase of additional stores, rise in prices, grant of additional dearness allowance and certain other concessions allowed to personnel; and that in the Air Force Estimate, almost entirely to the purchase of aircraft and equipment, mostly for replacement.

30. Civil expenditure shows an increase of Rs. 33·95 crores over the budget estimate of Rs. 419·58 crores. Payments to States on account of their share of Union Excise Duties and of grants under the substantive provision of Article 275 (1) of the Constitution have increased by Rs. 39·90 crores as a result of the Finance Commission's award and the levy of certain additional duties in replacement of sales tax. There is an increase of Rs. 1 crore on account of additional dearness allowance granted during

the course of the year and an increase of Rs. 2-1/2 crores in interest charges, due to larger expansion of Treasury Bills than anticipated in the Budget. A provision of Rs. 3 crores has also been made for write-back to revenue of losses on the Food Trading Account. It will be recalled that a Food Subsidy Fund of Rs. 25 crores was intended to be built up from the additional taxation levied this year, which if unspent, would have been available for the current and future years. But since the revenue surplus this year has been more or less absorbed by the transfer of additional resources to the States under the Finance Commission's award, it has not been possible to meet the entire subsidy from revenue. The amount of this subsidy this year will be Rs. 30 crores and next year Rs. 20 crores and it is proposed to write this back to revenue over a period of 10 years. The increases I have mentioned amount in all to Rs. 46-1/2 crores roundly but they have been offset by savings under other heads of Rs. 12-1/2 crores. Thus there is a saving of Rs. 5 crores under Education; Rs. 1 crore under Community Development; Rs. 2 crores under Scientific Department; Rs. 1 crore in the grant to States for development of backward classes and Rs. 2 crores in respect of grants to States towards expenditure necessitated by natural calamities. The balance of the savings is spread over a number of heads.

### Financial Year 1958-59

31. For the next year, on the basis of existing taxation, the revenue is estimated at Rs. 763·16 crores and expenditure at Rs. 796·01 crores, leaving a deficit of Rs. 32·85 crores on revenue account.

32. The revenue from Customs has been placed at Rs. 170 crores, the decrease of Rs. 13 crores as compared with this year's Revised estimates reflecting the effect of the restrictions on imports. Excise duties are expected to yield Rs. 260·45 crores, excluding Rs. 41·48 crores from additional duties on sugar, cloth and tobacco which accrue in almost their entirety to the States. This is an improvement of Rs. 8 crores over the current year's Revised estimate. Under Income tax the revenue is placed at Rs. 217 crores, allowing for a normal expansion in revenue of Rs. 10-1/2 crores over the current year's revised estimate. The Wealth Tax is expected to yield Rs. 12·5 crores, the tax on Railway fares Rs. 9·22 crores and the Expenditure Tax Rs. 3 crores. The revenue from Posts and Telegraphs is estimated at Rs. 2·34 crores against Rs. 1·23 crores this year. The dividend payable by Railways next year is estimated at Rs. 49·58 crores of which Rs. 7·04 crores will be taken as contribution to revenue and the balance of Rs. 42·54 crores in reduction of interest payments on the expenditure side. The surplus profits of the Reserve Bank next year have been placed at Rs. 30 crores, the same as in the current year. A credit of Rs. 7·34 crores has also been taken on account of the surplus of the cement account of the State Trading Corporation to be



transferred to Government. This amount will be utilised on the development of national highways. The share of income tax payable to States next year will be Rs. 76·97 crores against the current year's Revised estimate of Rs. 73·43 crores.

33. Expenditure next year is estimated at Rs. 796·01 crores of which Rs. 278·14 crores will be on Defence Services and Rs. 517·87 crores under the Civil heads.

34. Estimates for Defence Services show an increase of Rs. 12·09 crores over the Revised estimate for the current year. The increase is wholly in the Air Force estimates mostly for the purchase of stores for replacement. The Navy estimates show an increase of Rs. 1·46 crores but this is offset by a reduction in the provision for the Army.

35. Civil Expenditure next year shows an increase of Rs. 64·34 crores over the Revised estimate. Of this increase, payments to States of the proceeds of the additional excise duties on sugar, cloth and tobacco account for Rs. 27·96 crores. The greater part of the balance is due to larger provision for nation-building, development and social services. A detailed account of individual items is, as usual, given in the Explanatory Memorandum and only the more important items need be mentioned here.

36. The provision for expenditure on nation-building and development services under Civil Administration amounts to Rs. 130·09 crores as compared with Rs. 109·62 crores during the current year. The provision for Education at Rs. 29·63 crores is higher by Rs. 5·48 crores and includes Rs. 11·97 crores for grants to States, Rs. 2·51 crores for scholarships and Rs. 4·32 crores for grants to the University Grants Commission. For expenditure on Medical and Public Health, the provision has been increased from Rs. 10·43 crores this year to Rs. 16·03 crores next year and for agriculture and allied services, the provision made next year is Rs. 17·64 crores against the current year's Revised estimate of Rs. 16·85 crores. The provision for Scientific Research has also been stepped up by Rs. 3·7 crores and that for Industries and Supplies by Rs. 1·62 crores.

37. Larger provision is also being made for Community Development and National Extension Service and for welfare of Scheduled Tribes and development of Backward Areas and for Employment Exchanges, the increase next year over the current year's Revised estimate being Rs. 3·86 crores.

38. The estimates also include a provision of Rs. 6 crores for grants to States to help them to raise the emoluments of their low-paid employees, the corresponding provision for 1957-58 being Rs. 5 crores. The newly constituted Naga Hills and Tuensang District will cost about

Rs. 3.64 crores next year. Gross interest charges will increase by Rs. 17.60 crores of which Rs. 15.04 crores will be recovered from the commercial departments and the State Governments.

39. The rest of the increase in Civil Expenditure is spread over a number of heads.

### Capital Expenditure

40. The current year's budget provided for a capital outlay of Rs. 455 crores, excluding an adjusting item of Rs. 95 crores in respect of loan assistance from the U.S.A. Government, which is transferred to the Special Development Fund by debit to capital. The Revised estimates provide for an outlay of Rs. 427 crores, a reduction of Rs. 28 crores. Owing to better availability of materials, particularly steel and track materials, following the special arrangements made for the procurement abroad and the extension of the scheme of electrification to certain sections, Railways are expected to spend Rs. 14 crores more than estimated. Against this increase under Railways, a saving of Rs. 29 crores is expected in the provision of Rs. 157 crores for steel projects, Rs. 11 crores on food purchases and Rs. 2 crores under other heads, leaving a net saving on capital account of Rs. 28 crores.

41. Capital expenditure in the coming year is estimated at Rs. 412 crores excluding a formal adjusting debit of Rs. 78 crores in respect of loan assistance from the United States Government mentioned earlier. The drop of Rs. 15 crores over the Revised estimate is due to a reduction of Rs. 38 crores in the net outlay on food purchases and the special receipt of Rs. 16 crores from the United Kingdom as advance payments on account of sterling pensions, which is taken in reduction of expenditure, partly offset by increases under other heads. An increased provision of Rs. 31 crores has been made for the steel plants and Rs. 10 crores for industrial development. Details of the provision under the various heads are given in the Explanatory Memorandum.

42. In addition to the provision for direct capital outlay by the Centre just mentioned, the estimates include Rs. 288 crores for loans to State Governments and Rs. 71 crores for loans to Port Trusts, Statutory Corporations, foreign Governments etc. in the current year against an original provision of Rs. 238 crores and Rs. 86 crores respectively. The increase in the loans to State Governments is largely due to ways and means, advances and payments on account of their share of the net collections from small savings. In recent years the State Governments have been receiving a portion of these collections in their States as loans from the Centre. This share was raised during the current year from about 1/4th of the net collections to 2/3rds. Some arrears were also due to the States in respect of the previous year which have been paid to them.

Savings of Rs. 15 crores are, however, expected in the provision for other loans despite the fact that the Government of Burma are drawing an additional sum of Rs. 5 crores against the loan assistance of Rs. 20 crores promised to them some time back and an increase of Rs. 5 crores is also expected in the loans to the Industrial Finance Corporation. The provision of Rs. 15 crores made in the budget for loans to the Refinance Corporation is not likely to be required this year. For the next year a total provision of Rs. 362 crores has been made for loans, of which Rs. 284 crores will be for State Governments and Rs. 78 crores for others. Broad details of these loans are given in the Explanatory Memorandum.

43. Before passing on to a consideration of the ways and means position, an account may be given of the total provision included in the estimates of the coming year for the execution of the Five Year Plan and the magnitude of the total Plan outlay in the coming year. The Budget now presented to the House includes a total provision of Rs. 743 crores for the implementation of the Plan—Rs. 122 crores in the revenue budget and Rs. 621 crores in the capital budget. Out of this provision, Rs. 53 crores will be provided from the revenue budget and Rs. 178 crores from the capital budget for assistance to the States. In addition to this, the Railways will be spending Rs. 93 crores from their own resources on the Plan and the States Rs. 181 crores. The total plan outlay in 1958-59, including interest on loans on river valley projects treated as capital outlay and short term loans, will amount to Rs. 1,017 crores.

#### Ways and Means

44. The current year's budget provided for an overall deficit of Rs. 284 crores, of which Rs. 275 crores were expected to be covered by the issue of Treasury Bills and the balance by drawing down the cash balances. The Revised estimates place the overall deficit at Rs. 380 crores which will be met entirely by the expansion of Treasury bills. This deterioration in the ways and means position is due mainly to three factors. First, the anticipated revenue surplus of Rs. 36 crores has, as explained earlier, been mostly absorbed by the additional payments to the States as a result of the recommendations of the Finance Commission. Secondly, the net yield from small savings has been below estimate, and a drop of Rs. 20 crores is now expected in the budgeted receipt of Rs. 80 crores. Thirdly, external assistance, for which a credit of Rs. 150 crores was taken in the budget, is now expected to amount to only Rs. 105 crores, the balance being carried over to the coming year. Part of the short fall will, however, be met by savings in the capital outlay under a number of heads so that the net deterioration in the position is not likely to be more than about Rs. 95 crores.

45. In the current year Government floated two new loans, the 3-1/2 per cent National Plan Bonds 1967 at an issue price of Rs. 99.5 and the 4 per cent loan 1972 at par. Conversion facilities were offered for

the 3 Per Cent. Victory Loan 1957 and the 3 Per Cent Loan 1958 which was due for repayment in the following year. Subscriptions to the new loans amounted to Rs. 106 crores, of which Rs. 45 crores came by way of conversion. Later in the year, when a demand for more investment developed in the market, a re-issue of the 3-1/4 per cent. Loan 1962 was made through the Reserve Bank. The entire sum of Rs. 30 crores of this re-issue has been absorbed by the market. The outstanding balance of the 3 per cent. Victory Loan 1957, which was not converted into the new loans, was repaid in cash. The net market borrowings this year have thus amounted to Rs. 68 crores, the sum for which credit was taken in the budget.

46. Mention was made earlier of the decline in the receipts from small savings. For some months the net receipts have been much smaller than in the past particularly under Postal Savings Banks. In the first ten months of the current year the net receipts amounted to Rs. 37.6 crores against a sum of Rs. 44.8 crores in the corresponding period of last year. The deterioration is wholly due to a drop in the receipts from Savings Banks which are Rs. 14 crores less than in the previous year. In recent weeks there has been a slight improvement and it is hoped that collections will increase steadily in the future.

47. The intensification and development of the Small Savings movement have been under the constant consideration of Government in consultation with the State Governments who have now a predominant interest in the net proceeds from this source. The House will remember that, as part of the programme for attracting larger investments, the rate of interest on Postal Savings Banks was raised by 1/2 per cent and the yield on the 12 Year National Plan Savings Certificates and Treasury Saving Certificates was increased with effect from the 1<sup>st</sup> June 1957. Since then, the yield on the 15 year annuities has also been raised to the same level as the yield on the 12 Year National Plan Certificates. The increase in the yield has had a good effect on the sale of Certificates but the heavy withdrawals from Postal Savings Banks are somewhat disquieting. The introduction of a scheme of recurring monthly deposits which will assist persons with small regular incomes to accumulate savings for meeting expenditure such as on the marriage and education of children is under consideration and it is hoped to introduce this soon.

48. The National Savings Organisation, in cooperation with State Governments, has been making continuous efforts to improve collections of small savings. Internal agents are being appointed in both Government and non-Government institutions for securing regular investments from their fellow employees through organised saving groups. The recent

amendment of the Payment of Wages Act permitting voluntary deductions at source for purposes of investments in small savings is likely to assist in the mobilisation of savings in industrial establishments. State Governments are undertaking intensive campaigns in the rural areas and special attention is being given to the Community Project areas and National Extension Service blocks. The procedure at Post Offices, through which the bulk of the small savings is collected, is also being simplified wherever possible and a special Small Savings Board consisting of representatives of the Posts and Telegraphs Department, the Accountant General, Posts and Telegraphs, the Finance Ministry and the Reserve Bank of India has been constituted for this purpose.

49. In the budget for the coming year credit has been taken for a net receipt of Rs. 125 crores from market borrowing and Rs. 100 crores from small savings. Market conditions in the last two or three months have been easier and if these continue, as may be reasonably expected, the target of Rs. 125 crores is likely to be reached. For small savings, although the net receipts this year have been disappointing, it may be hoped that, with the more intensive development of the movement with the cooperation of the States, the net collections next year will show a substantial improvement. As mentioned earlier, foreign assistance next year is likely to amount to Rs. 325 crores of which Rs. 40 crores will be by way of grants and the balance by way of loans.

50. The overall budgetary position next year may now be summarised. At the existing level of taxation and expenditure there will be a revenue deficit of Rs. 33 crores. Capital outlay will amount to Rs. 412 crores, loans to State Governments and others to Rs. 362 crores, and debt repayments to Rs. 28 crores. The total disbursement of Rs. 835 crores will be met to the extent of Rs. 75 crores from repayments of loans by State Governments and others, Rs. 145 crores from market borrowing in India, Rs. 100 crores by Small Savings, Rs. 285 crores from foreign loans and Rs. 25 crores from miscellaneous receipts under debt and deposit heads, leaving a deficit of Rs. 205 crores which will be met by the issue of Treasury Bills.

51. On the basis of the above estimates the total amount of outstanding Treasury Bills at the end of 1958-59 will be a little over Rs. 1,400 crores, the bulk of which will be held by the Reserve Bank. The expansion of Treasury Bills has been not merely to meet the internal requirements but also for the replacement of the external assets held by the Reserve Bank which have been drawn down mostly for development purposes in the last two or three years. The Treasury Bills represent something more than mere floating short term debt and will gradually be funded into loans of appropriate maturity.

52. I now turn to the proposals for dealing with the anticipated revenue deficit of Rs. 32.85 crores in the coming year.

53. Less than ten months ago Parliament approved proposals involving very substantial additions to taxation of a magnitude rarely equalled in peace time. These covered not merely the extension of existing taxes but the levy of new taxes such as the tax on wealth and the tax on expenditure. All these measures resulted in a major reorientation of the tax structure of the country. I do not propose to make any major modification in it but to confine myself to making such improvements as are necessary to make the present pattern of taxation an integrated one, and to plug any loopholes in taxation.

### Direct Taxation

54. I shall first deal with direct taxation. My first proposal is to introduce a tax on gifts which will fill a gap in the scheme of direct taxation and would not only make evasion or avoidance difficult but also spread the tax burden more equitably.

55. The idea of a Gift Tax is not new. Many Honourable Members have stressed both in this House and the other House the need for introducing such a measure at an early date. The transfer of properties through gifts to one's near relations or associates is one of the commonest forms of avoidance of not only the Estate Duty but also of Income-Tax, Wealth Tax and even the Expenditure Tax. The only way of effectively checking this practice is to levy a tax on gifts. Such a tax is already being levied in other countries, for example, U.S.A., Canada, Japan and Australia. The Taxation Enquiry Commission also had accepted the Gift Tax as theoretically an attractive proposition.

56. It is proposed to levy a tax on gifts by whomsoever made, the only exceptions being charitable institutions, government companies, corporations established by Central or State Acts and public companies whose affairs are controlled by six persons or more. The tax will be levied on the donor on the value of all gifts made by him during a year but for the purpose of determining the rate of duty, the gifts made during the four years preceding the year will be aggregated. Such aggregation will, of course, be made only in respect of gifts made after the date this tax comes into force. Gifts upto a total value of Rs. 10,000 in any one year will be exempt and if the value of gifts made during any year exceeds this sum, only the excess will be subjected to tax. This basic exemption of Rs. 10,000 will be reduced to Rs. 5,000 if gifts to any one individual donee during a year exceeds Rs. 3,000. In addition to this basic exemption, there are other exemptions, important among which are:—

- (a) gifts to Central and State Governments, Local Authorities and charitable institutions;
- (b) gifts to female dependants on the occasion of marriage upto Rs. 10,000 in each case;

(c) gifts to one's wife upto a total limit of Rs. 1 lakh;

(d) gifts to dependants of policies of insurance upto Rs. 10,000 for each.

The rates of tax will be the same as for the Estate Duty, the only difference being that the first slab of Rs. 50,000 will not be exempted from the tax. The rates of tax range from 4 per cent on the first slab to 40 per cent on gifts over Rs. 50 lakhs. The administrative set up and the procedure for assessment, appeal and collection of tax will be the same as for Income Tax, Wealth Tax and Expenditure Tax.

57. The main object of this tax is to plug a loophole in the other tax statutes. Its importance cannot, therefore, be adequately measured in terms of the amount of revenue it brings directly. We have no reliable data for making an estimate of the yield, and on a rough guess the yield from the Gift Tax has been placed at Rs. 3 crores. A bill for the levy of this tax is being introduced separately.

58. My second proposal is to make certain amendments in the Estate Duty Act. The actual collections of Estate Duty have fallen short of even the modest expectation we had at the time of passing that measure. This is partly due to the practice of making large gifts *inter vivos* which will, hereafter, be checked by the levy of the Gift Tax. It is also partly due to the numerous concessions provided in the Act itself, and I propose to reduce some of them. The important changes are:—

(a) The exemption limit will be reduced from Rs. 1,00,000 to Rs. 50,000.

(b) Only one-half of the probate duty or court fees paid on succession certificates will be allowed as a deduction from estate duty instead of the full amount as at present.

(c) Gifts other than those for charitable purposes made within a period of two years prior to death are now subjected to estate duty. It is proposed to increase this period to five years, as recommended by the Taxation Enquiry Commission. Gifts on which gift tax has been paid will not be taken into account.

(d) The value of coparcenary interest in Hindu Undivided Families will be taxed at the rate applicable to the value of the estate of the branch of the family concerned.

The effect of these changes will be to increase the revenue by Rs. 50 lakhs which will accrue wholly to the States.

59. Honourable Members are aware that the Estate Duty Act has departed from the other fiscal statutes in vesting the appellate powers

with the Central Board of Revenue. Now that we have gained some experience in the working of this Act, it is proposed to bring the appellate procedure in line with the provisions in the Income Tax, Wealth Tax and Expenditure Tax Acts. A bill amending the Estate Duty Act is being introduced separately.

60. So far as Income Tax is concerned, no major change in the rate structure is proposed to be made. For the next financial year the basic rates of tax, together with the special surcharges in operation for the current financial year, will continue. The only change which I propose to make is in regard to the excess dividend super-tax payable by Section 23A companies. At present, the excess dividend tax rates for all companies are 10 per cent, 20 per cent and 30 per cent on the slabs of dividends over 6 per cent, 10 per cent and 18 per cent, respectively, of capital. For the financial year 1958-59, I propose to fix the excess dividend tax rates for Section 23A companies only in two slabs, 10 per cent on the slab of dividends over 6 per cent of capital and 20 per cent on the slab over 10 per cent of capital. This change is desirable as under the Act these companies are required to distribute the whole or a large proportion of their profits to the shareholders. It is not possible to estimate the loss of revenue in this proposal, but it is likely to be very small.

61. I also propose to make a change in the substantive income-tax law in regard to "Development Rebate". At present, this rebate is allowed uniformly at 25 per cent of the cost of the new machinery or plant and is available for ships as well. While this rate of 25 per cent is adequate for new plant and machinery in general, I think some further concession is necessary for the shipping industry. I propose, therefore, to increase the rate of development rebate for ships to 40 per cent. Simultaneously, the conditions for the grant of development rebate will be tightened as some instances of abuse of this concession have come to notice.

62. In addition to these, the Finance Bill contains some amendments relating to income-tax law, some of which are intended to check evasion while some others are only of a clarificatory nature. To mention the more important of them, the definition of 'technician' is proposed to be made stricter to ensure that the exemption is not secured to a person who is not legitimately entitled to it. It is also proposed to confer on the Central Board of Revenue the power to make rules laying down the basis for valuing perquisites in kind, like rent-free quarters, free use of conveyance, etc., so that some uniformity is secured in the basis of assessment.

63. Before leaving the subject of income-tax, I should like to mention a change in regard to the exemption from tax of payments made to employees for leave passages. Such exemption is now granted only if the payments are made under certain rules framed by Government. This



leads to a large volume of administrative work not commensurate with the results and these rules are proposed to be withdrawn.

64. In regard to the Wealth Tax, the only change proposed is to exempt a foreign citizen from payment of the tax on his foreign wealth, even though he may be resident or ordinarily resident in India. This was the intention of the Select Committee when the provisions of the Bill were discussed by them but the intention has not been secured by the language of the provision as it now stands.

### Indirect Taxation

65. I now turn to the field of indirect taxation. In regard to Union Excise Duties the only major change I propose is the increase in the rate of duty on Cement from Rs. 20 per ton to Rs. 24 per ton. This increase will not, however, raise the issue price of cement as it is proposed simultaneously to withdraw the surcharge at present levied by the State Trading corporation. The additional revenue of Rs. 2.24 crores from this will be utilised for road development.

66. Certain minor amendments, mainly of a clarificatory nature, are also being made and I need not dilate on them here. I should, however, refer to two changes which are being made immediately by notification. Firstly, for powerlooms producing cotton textiles it is proposed that the concession of paying duty at compounded rates should no longer be available to establishments having more than 100 looms. Simultaneously, the compounded rates applicable to units having 25 to 100 powerlooms are being suitably enhanced in two stages. This would bring in an additional revenue of Rs. 83 lakhs. Secondly, the rate of duty on vegetable products is being lowered for the first 3000 tons cleared by each factory. This would give substantial relief to the smaller producers and will cost the Exchequer Rs. 24 lakhs per annum.

67. Coming to Customs Duties, only a few minor adjustments and verbal changes are being made in the Tariff Schedule to remove some anomalies or doubts. The only change of any significance is the introduction of the alternative *ad valorem* rate of duty in respect of expensive varieties of artificial silk yarn, like nylon, perlon, etc.; so far as the other yarns, such as viscose, are concerned, the rate of duty is being left unchanged. The financial effect of these changes will be negligible.

### Net Effect of Proposals

68. The net effect of the taxation proposals may now be summarised. The tax on gifts will bring in Rs. 3 crores, the changes in the Estate Duty Rs. 50 lakhs, the increased duty on cement Rs. 2.24 crores and the adjustments in the excise duty on cloth Rs. 83 lakhs, a total sum of Rs. 6.57

crores, of which Rs. 50 lakhs will accrue to the States. The reduction in the excise duty on vegetable products will involve a loss of Rs. 24 lakhs leaving the net additional revenue at Rs. 5.83 crores. This will leave a final deficit of Rs. 27.02 crores which I propose to leave uncovered.

### Conclusion

69. The coming year, which will be the third year of the Plan, is bound to be one of difficulty calling for a considerable measure of sacrifice on the part of everyone. It is unnecessary to reiterate that the plan of development the country has set before itself has to be implemented whatever the sacrifice that may be called for because without economic development we cannot bring relief and prosperity to the millions of our countrymen who have suffered for so long from the curse of poverty. The crisis through which we are passing is a crisis of development, a crisis of resources. We must try to produce more, export more and save more to find the resources for implementing the Plan. In the budget for the coming year we have set ourselves high targets for both taxation and borrowing. I have no doubt in my mind that these targets are not beyond our capacity provided there is a sense of discipline and a sense of urgency in the country. I am sure the effort to realise the resources planned for the coming year will be forthcoming.

70. We live in an age of revolutionary changes when the development of science and technology has opened out vast avenues of human progress. We live also at a time when a great part of the resources of the world is being directed to preparations for war and the production of terrible weapons of mass destruction. While space travel beckons to us and the vast expanses of the universe almost appear to be in our reach, the horizon of our minds is limited by fear and the shadow of terrible disaster hangs over us. How can we and others raise ourselves about fear and hatred and the petty conflicts that are so out of place in the new world that is taking shape? How can we in India function with courage and unity and grasp with strong hands and stout hearts at this future? It has been given to us of this generation to face mighty problems and to achieve great results. We can only serve our own people or the world if we hold to our ideals and live up to them.

71. This budget statement is a minor event in our march forward. We have to look at it in the perspective of what we have to do and what we have to achieve. Above all, we have to realise that our success depends on ourselves and not on others, on our own strength and wisdom, on our unity and cooperation and on the spirit of our people whom we are privileged to serve.

## SUMMARY OF FINAL ESTIMATES

(In lakhs of Rupees)

	Budget 1957-58	Revised 1957-58	Budget 1958-59
<b>REVENUE</b>			
Customs . . . . .	167.60	183.00	170.00
Union Excise Duties . . . . .	259.57	264.55	301.93 } *
Corporation Tax . . . . .	50.50	50.50	55.50
Taxes on Income other than Corporation Tax . . . . .	89.92	82.47	84.53
Estate Duty . . . . .	9	12	12
Tax on Wealth . . . . .	12.50	9.00	12.50
Tax on Railway Fares . . . . .	..	3	7
Tax on Expenditure . . . . .	..	..	3.00
Tax on Gift . . . . .	..	..	3.00*
Opium . . . . .	2.50	3.28	2.87
Interest . . . . .	4.90	6.15	6.60
Civil Administration . . . . .	43.21	56.79	44.24
Currency and Mint . . . . .	36.02	36.84	36.62
Civil Works . . . . .	2.95	2.78	2.87
Other Sources of Revenue . . . . .	27.65	21.56	32.93
Posts & Telegraphs—Net contribution to general revenues . . . . .	3.95	1.23	2.34
Railways—Net contribution to general revenues . . . . .	6.67	6.33	7.04
<b>TOTAL REVENUE . . . . .</b>	<b>708.03</b>	<b>724.63</b>	<b>763.16 } *</b> <b>+ 5.83 }</b>
<b>EXPENDITURE</b>			
Direct Demands on Revenue . . . . .	46.00	62.97	94.45
Irrigation . . . . .	10	10	13
Debt Services . . . . .	35.00	37.44	40.00
Civil Administration . . . . .	191.02	194.71	200.44
Currency and Mint . . . . .	6.72	7.35	8.50
Civil Works & Miscellaneous Public Improvements . . . . .	15.93	16.23	18.71
Pensions . . . . .	9.17	9.36	9.40
Miscellaneous : . . . . .			
Expenditure on Displaced Persons . . . . .	22.50	22.33	20.48
Other Expenditure . . . . .	44.06	42.63	50.33
Grants to States etc. . . . .	25.23	47.26	47.03
Extraordinary Items . . . . .	23.86	13.15	28.40
Defence Services (Net) . . . . .	252.70	266.05	278.14
<b>TOTAL EXPENDITURE . . . . .</b>	<b>672.29</b>	<b>719.58</b>	<b>796.01</b>
<b>Surplus (+)</b>	<b>+ 35.74</b>	<b>+ 5.05</b>	<b>—27.02</b>
<b>Deficit (—)</b>			

\*Effect of budget proposals.

